Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Maze & Parra	Analyst:	Raul Guzman	Bill Number:	AB 293
Related Bills:	See Legislative History	Telephone:	845-4624	Amended Date:	March 7, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Qualified Medical Care Professionals Credit

SUMMARY

This bill would allow an income tax credit for qualified medical care professionals who treat Medi-Cal beneficiaries in specified counties.

SUMMARY OF AMENDMENTS

On March 7, 2006, the bill was amended to replace the word "either" with "one" on page 2, line 6.

This is the department's first analysis of the bill.

PURPOSE OF THE BILL

According to the author's office, the intent of this bill is to increase access to medical care in communities that have children and adults receiving Medi-Cal benefits.

EFFECTIVE/OPERATIVE DATE

This bill is a tax levy and would be effective immediately upon enactment. It would be operative for taxable years beginning on or after January 1, 2006, and before January 1, 2011.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal and state laws provide various tax credits, designed to provide a tax incentive to taxpayers that incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they might not otherwise undertake.

Federal law does not provide a credit similar to the credit proposed by this bill.

Board Position:			Department Director	Date
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THIS BILL

This bill would allow qualified medical care professionals performing services in a qualified county a 6.5% personal income tax credit on the amount received for treating Medi-Cal beneficiaries in a qualified county.

This bill would define the following terms:

- "Qualified medical care professional" means a physician, surgeon, optometrist, or dentist who is licensed to practice medicine, surgery, optometry, or dentistry in the State of California. The medical care professional is required to be either:
    1. self-employed and treating Medi-Cal beneficiaries on a fee-for-service basis, or
    2. a salaried employee at a qualified health center in a qualified county.

- "Qualified county" means a county within California where at least 25% of the population were Medi-Cal beneficiaries and unemployment was at least 14% in the 2003 calendar year or the county's population density was less than five persons per square mile as reported in the 2000 federal census.

- "Physician and surgeon" means an individual who is authorized to practice medicine or surgery in California and is licensed by the Medical Board of California or the Osteopathic Medical Board.

- "Qualified health center" means a health center or rural health clinic that is federally qualified and is operated in a qualified county.

IMPLEMENTATION CONSIDERATION

While a self-employed physician's credit would be 6.5% of the "amount received" from Medi-Cal reimbursement, if the physician was an employee, it is unclear how the credit would be determined. For example, the credit could be based on the employee physician's gross salary, net salary, or some other amount. It is suggested that the bill be amended to clarify how the credit would be calculated. In addition, if the medical professional, as an employee, treats both Medi-Cal and non-Medi-Cal patients, a mechanism is needed to prorate the individual's salary for purposes of this credit.

LEGISLATIVE HISTORY

AB 218 (Maze, 2005/2006) would have allowed a tax credit for doctors that treat Medi-Cal beneficiaries in specified counties. AB 218 was identical to this bill. AB 218 failed passage out of the Assembly Revenue and Taxation Committee.

AB 988 (Maze, 2003/2004) would have allowed a tax credit for doctors that treat Medi-Cal beneficiaries in specified counties. AB 988 failed passage out of the first house by the constitutional deadline.

AB 2164 (Cogdill, 2001/2002) would have allowed a tax credit to medical professionals who work in rural communities. AB 2164 failed passage out of the Assembly Revenue and Taxation Committee.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Michigan, Massachusetts, Minnesota*, and *New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. None of these states provide a credit similar to the credit allowed by this bill.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

<u>Revenue Estimate</u>

Estimated Revenue Impact of AB 293 Effective 1/1/07 (In millions)		
2006-07	2007-08	2008-09
-$3	-$3	-$3

It is estimated that a credit equal to 6.5% of a physician's income from Medi-Cal will result in losses on the order of $3 million per year (849 physicians x $3,250 average tax credit = $3 million) beginning in 2006-07.

Revenue losses resulting from this proposal would depend on several factors, such as the number of qualified medical care professionals that provide or would start to provide medical services in the area that qualify under this bill, the amount of income derived from treating Medi-Cal beneficiaries in these areas, the taxable income reported by these medical professionals in any given year, as well as the utilization of the credit for each taxable year.

Revenue Discussion

Using the criteria of a qualified county specified in this bill, five counties would currently be eligible. These are Fresno, Imperial, Merced, Yuba, and Tulare. Based on information from Department of Health Services, there are approximately 849 physicians and physician groups practicing in these areas that provided Medi-Cal services.

For purposes of this bill, it was assumed that the average income tax liability for physicians who would take the credit would be approximately $10,000 (average income of $200,000 x .05 average tax rate). Further, it was assumed that if only 25% of their income was derived from Medi-Cal beneficiaries ($200,000 x .25 = $50,000) that the 6.5% credit would effectively be used in its entirety each tax year ($50,000 x .065 = $3,250).

LEGISLATIVE STAFF CONTACT

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